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THE MANAGEMENT MAGAZINE FOR CAR AND LIGHT TRUCK FLEET OPERATORS

Experience Guides Gelco's Growth

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july 1981

automotive FLEET®

THE MANAGEMENT MAGAZINE FOR CAR AND LIGHT TRUCK FLEET OPERATORS

Volume 20, Number 9

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Influencing over 3.4 million cars and 1.6 million light trucks and vans in leasing, rental, business, government, taxi, police, utility and driving schools.

On our cover: Experienced hands guide the growth at Gelco Fleet & Management Services Company. From top left are Stan Chason, president GFMS; Bob Ward, president, Fleet Management Group; Ed Wigg, vice president, Fleet Management Group; Walt Belleville, president, Truck Fleet Group; Frank Churchill, executive vice president, Fleet Management Group, and Loren Rodvold, vice president, Client Relations.

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How Much Is Enough? Level Of Equipment Critical Factor In Vehicle Selection

Picking options a question of balancing initial cost versus resale value.

The role of the fleet vehicle has changed little over the past ten years – transportation being its primary function. Still, if you compared a current model fleet car with one used ten years ago, the differences would be glaring. The conventional wisdom then was to acquire fleet vehicles as inexpensively as possible. You would have seen only the bare essentials – black sidewall tires, perhaps automatic transmission, maybe an AM radio, few frills on generally a full-sized model.

The difference in appointments is dramatic.

Today, a far cry from just a decade ago, few fleet vehicles are without automatic transmission, air conditioning, whitewall tires, full wheel covers, tinted glass, at least an AM radio, power steering, power brakes, rear window defroster, and maybe a vinyl roof, cruise control and power door locks.

The difference in appointments is dramatic, as significant as the downsizing trend – perhaps even a result of it. And here the fleet administrators and lessors meet a delicate balancing act – walking a high-wire with a dozen considerations on each arm. In addition to and in conjunction with downsizing, you have to also consider driver comfort and perhaps more importantly, resale value. As the trend has gone *smaller*, the philosophy has shifted to *equip well* and *sell for a premium.* Fleets discovered that they could recoup the initial outlay for the options on the used car market, with two positive side benefits: driver acceptance and accelerated resale. Driver acceptance – especially of downsized cars – should not be minimized. An unhappy driver can turn the most durable vehicle into a problem. Optional equipment can entice drivers into smaller cars and result in better care, even to the point of them buying the units.

But here the balancing begins. Along with *how-small* goes *how-well-equipped?* The answers lie somewhere between a balloon-tired, stripped down dinosaur and a Moped with chrome sidecar and multiplex stereo. And as in any other field, you ask ten experts and you get ten different opinions. The ultimate decision is, of course, the administrator's and lessor's. And their frames of reference must include not only the fleet industry but the entire retail automobile market as well.

In order to gain a perspective on optional equipment, a look at what types of options are most commonly installed is in order. According to Automotive News, the most commonly ordered option is power steering with 83 percent of the vehicles sold in 1980 so equipped. The second most popular option (in some cases standard) is automatic transmission, with 1980 installation rate of 82 percent. Eighty-one percent of 1980 vehicles were equipped with power brakes, while 72 percent were equipped with air conditioning.

It is interesting to note, however, that installation proportions on the aforementioned options actually declined over 1979 figures, according to the trade paper. Power steering in 1979 was found on almost 90 percent of the vehicles ordered, power brakes were on 85 percent, automatic transmissions on 89 percent and air conditioning on almost 80 percent of 1979 models.

The decline in the use of these items (keeping in mind these are on all cars, retail included) has been attributed to the overall decline in new car sales and an increased awareness of car costs on the part of consumers. As new car prices have risen – price increases often begin on optional equipment rather than the vehicle's base price – the auto buyer has become painfully aware of how much these ameneties cost. That awareness, coupled with the higher interest rates may have contributed to the drop.

The most popular option is power steering.

The only option to register an increase over 1979, according to Automotive News, was rear window defrosters, which increased their share from 47 percent in 1979 to 50 percent in 1980.

Significant declines in options such as automatic transmission and air conditioning (seven percent each) were attributed to the increase in small car sales, which traditionally have a lower option installation rate than higher line cars. In addition, concern over fuel economy is behind the decision to go with a manual transmis-

sion and without air conditioning.

From a cosmetic point, decreases in the use of vinyl roofs and whitewall tires were also recorded. Vinyl top installation dropped 11 percent to account for only 24 percent of 1980 model sales.

Other significant accessory data include: tilt steering, which was installed on 35 percent of 1980 output; cruise control, at 32 percent; power windows, 22 percent; and power seats, 15 percent.

As for sound systems, 38 percent of output was equipped with AM radios, 13 percent with AM/FM, 29 percent with AM/FM stereo and 13 percent with tape players.

Runzheimer reports many fleets are adding more options.

While there have been declines in certain areas, from this information it still can be concluded that the average car is equipped with power steering, power brakes, air conditioning, automatic transmission, a radio of some sort and to a lesser degree, tilt steering, power windows and a vinyl roof.

According to Runzheimer & Company in their monthly report on transportation, the same holds true for fleet cars. "Air conditioning, automatic transmission, power steering, power brakes and radios are specified on more than five out of six cars surveyed, regardless of size or model. Cruise control and tinted glass are ordered on about half of these vehicles, and radial tires are included in more than a third of them."

Runzheimer also found that more than half the fleets surveyed have added more options to their cars since the 1979 model year. The most frequent addition is cruise control. Only eight percent said that they offered fewer options on their fleet vehicles. Among the options dropped by these respondents were whitewalls, tilt wheels, light packages and luxury groups.

The most popular reason for selecting optional equipment, according to 33 percent of the fleets, is driver comfort and morale, the Runzheimer Newsletter said. Following closely behind, however, were overall economy of ownership and operation (27 percent), and resale (23 percent). On the surface, it might appear that concern for the driver is the overriding factor; however, when economy of ownership and operation is totalled with resale, financial considerations (60 percent) win out in option selection over driver considerations.

This consideration of economy of ownership and operation, and resale in tandem is important; because just adding the equipment to the vehicle adds to the car's overall operating expense and that must be justified. According to Runzheimer figures, a four-cylinder compact (a Citation) with four-speed manual transmission, power steering, power disc brakes, tinted glass and AM radio, costs $140 less per 20,000 miles to run than the same vehicle with automatic transmission, air conditioning, cruise control, power steering, power disc brakes, tinted glass and AM radio. "The more sparsely equipped cars are obviously less expensive to operate," Runzheimer asserts, but follows with the question, "What about resale . . . is a six-cylinder intermediate with manual transmission a 'white elephant' on the market at disposal time?"

While accessories and options may add to the operating cost of a vehicle, the conventional wisdom is that the higher return on the used car market will offset these costs. Further along this line of thinking, many fleets feel the extra equipment makes a car

CRITERIA USED BY FIRMS TO SELECT VEHICLE ACCESSORIES

Driver Comfort and Morale	33%
Overall Economy of Ownership & Operation	27
Resale	23
All Above Weighted Equally	4
Geographic Area	4
Don't Know	8

Source: Runzheimer & Co.

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stand out on the used car block and speeds its sale, and that an under-equipped car that takes longer to move may actually be more expensive in terms of holding costs. An obvious bonus is increased driver comfort and satisfaction with the vehicle if it is properly equipped.

Sydney Friedlander, editor of Automotive Market Report (AMR) in a guest editorial in the Runzheimer publication said, "Our studies indicate that the most important options include tilt steering wheels, vinyl roofs, power locks, AM/FM radio, and of course, air conditioning.

"It is difficult to make a generalization of just how much these options are worth as a percentage of their original cost," he continued, "because some of them have vastly different values. As a rule, though, power door locks, which have become a more and more important option, will generally retain 50 to 75 percent of their original value. On the other hand, some of the smaller items may retain as little as 35 to 40 percent. There is no real 'rule of thumb' because each car becomes a separate entity. But, there's one thing sure,

"A plain Jane car won't sell."

and this particularly true of some of the 'bigger' cars. If they don't have most of the above items, a lot of dealers won't even waste their time on them when they come on to the auction block."

Walter Sergeef, senior vice president of U.S. Fleet Leasing agrees. "A plain Jane car won't sell," he said, adding that when the market is soft, it is the better equipped cars that move. Sergeef is counted among those who see the addition of options paralleling downsizing – adding more creature comforts for drivers as they downsize. Among the items being added to cars already equipped with air conditioning, automatic transmission and power brakes & steering are cruise control, tilt steering and AM/FM stereo.

CHANGES IN ACCESSORY SELECTION FIRMS HAVE MADE SINCE 1979

Offered more accessories – 58% of all firms

New Options offered:

Cruise Control	57%	Power Locks	7%
Stereo	21	Clock	7
Moldings	21	Stereo w/tape deck	7
Heavy Duty Pkgs.	21	Vinyl Roof	7
Tilt Wheel	21	Defoggers	7
Radials	14	Cloth Seats	7
Wheel Covers	14		

Offered fewer accessories – 8% of all firms

Options dropped:

Whitewalls	33%	Light Package	33%
Tilt Wheel	33	Luxury Group	33

No Change – 36% of all firms

Source: Runzheimer & Co.

In the area of cosmetics, Sergeef sees the trend away from vinyl tops continuing. "We're seeing more dual paint schemes and in fact we recommend some two-tone treatments," he said.

While some companies are opting for creature comforts as a driver incentive to downsize, other firms view options in a different light. Doug Brown, executive vice president of Enterprise Leasing Company (which is involved in small fleet and individual leasing as well as daily rental), feels that options that enhance the car's appearance are most important. Generally, Brown recommends the use of automatic transmission, power steering, air conditioning, power brakes and AM radio. "An upgrade radio is of no value," he said, and noted that in the daily rental fleet, they generally stay away from cruise control, tilt steering and other power options. However, in certain instances, they will specify sport mirrors, pinstriping and other visual impact items that will help move a car quickly on the used vehicle market.

Although the daily rental cars are equipped for visual impact, Brown feels that in certain fleet applications, some of the items excluded in rental should be recommended in fleets. However, the types of equipment used should be chosen carefully. "Don't chisel a guy on a car," Brown said, "but don't equip it with options that will cause you problems later." He estimates that the average fleet driver costs a company $35 an hour in salary, fringes and other expenses. If a car is equipped with options that have the potential for downtime, the company will be paying the driver for hours not worked while his car is being repaired. Some electronic equipment – sunroofs and power seats – are items that have this potential.

Overall, Brown stresses the need for interior packages and trim upgrades. "I believe that it's the sizzle that sells used cars."

Dick Martin, vice president of Leaseway System Corp. is another who points out that the wider range of options offered on fleet cars in recent years has done much to soften the blow of drivers moving from full-size to compact cars.

Among the items he sees gaining favor in fleets are power door locks from a security standpoint and tilt steering, especially in smaller cars. "I like to see fleets dress up their cars." Martin said. "By dressing up their cars, the drivers take better care of them. It also helps improve driver or employee sales of used units." Generally, Martin says, recommended equipment should include automatic transmission, air conditioning, AM/FM radio, tinted glass, dual mirrors, whitewalls, rear win-

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dow defogger, upgraded trim levels, and bodyside moldings. If the driver is allowed to add on options at their cost, Martin said, they should be allowed to choose from cruise control, stereo, power door locks and so on.

However, according to Martin, fleets should be cautious not to over-equip cars, but rather add a reasonable amount of equipment and let the driver take it from there. Many options will not return their initial cost on the used car market, and in some instances, the additional holding costs of a more expensive unit can be costly. That's the reason for letting the driver pay for extra power options.

The added carrying costs in 20-percent prime environment may result in fleets moving away from the level of equipment that they have used in the past few years, Jim Frank, president of Wheels, Inc. said. "In the last few years, putting equipment on cars could pay for itself." However, with high prime, $500 worth of optional equipment could result in as much as $200 in additional interest costs over the life of the vehicle.

One of the reasons that the used car market has been so strong, according to Frank, is that new car prices are getting out of some people's reach. Used fleet cars now represent something that is obtainable to these consumers. A relatively new phenomenon, according to Frank, is that fleet cars may be so well equipped that they soon will be out of the reach of even used car buyers.

"You have to keep in mind that up until several years ago, we were selling used cars in the $1,800 range," he said. "Now we're seeing two year old fleet cars at $4,000 and that translates to over $5,000 retail. The simple affordability of these units is disappearing." Taken in the context of a 20 percent prime rate, the impact is great on the used car buyer, he asserts. "There is a real danger of pricing these cars out of reach."

"The simple affordability. . . is disappearing."

Frank said that fleets have to also look at the problem in terms of manufacturing a used car that is more affordable. "Today's options cost more," he said, "and that means you're going to have to do a lot more to come out even."

He forsees future fleets scaling back on options and on the number of cars available on selector lists. "We used to feel that top of the line was best — that it made the car stand out more." But that thinking is giving way to producing a more economical used car. "Economy today sells," he noted, adding that some options, such as bodyside moldings, will continue to find favor because it will allow the car to come back looking better and therefore enhance resale value.

As for optional equipment, Frank listed the basics as being automatic transmission, air conditioning, tinted windshield, rear window defroster and AM radio. Any additional equipment should be evaluated by car size, use and level, he said.

Ordering a fleet car 10 years ago was much simpler than it is now. Optional equipment was not a part of the equation. Although equipment level will not go back to where it was, it seems that the thinking may have come full cycle. And in an environment of high financial costs, rising new car prices and rapid shifts in consumer demand, fleet administrators will have to walk a fine line when it comes to car specifications. They cannot afford to either under- or over-equip vehicles, poor resale looming as a problem on the low side and carrying costs with no resale return on the high side. Somewhere in there, client or driver satisfaction has to be factored in, as well as job use, downsizing and employee sales. But once the proper balance has been struck, reward will be seen in high resale value and driver satisfaction.

ACCESSORIES ORDERED BY FIRMS ON STANDARD COMPANY-PROVIDED CAR
(Excluding Executive Vehicles)

	Percent of Firms		Percent of Firms
Air Conditioning	85%	Defoggers	23%
Automatic Transmission	85	Tilt Wheel	15
Power Steering	85	Heavy Duty Packages	12
Power Brakes	85	Clock	12
Radios	81	Vinyl Roof	12
AM	50	Remote Mirror	12
AM/FM	15	Power Door Locks	8
AM/FM Stereo	12	Light Package	4
AM/FM Stereo w/tape deck	4	Load Leveler	4
Tinted Glass	50	Pin Striping	4
Cruise Control	42	2-Tone Paint	4
Radial Tires	38	Floor Mats	4
Wheel Covers	38	Optional Cloth Seats	4
Whitewall Tires	35	Optional Vinyl Seats	4
Side Moldings	35		

Source: Runzheimer & Co.

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NAFA Survey Shows Jump in Operating Expenses

For the second straight year running costs up by two cents a mile.

There has been a plethora of good news and bad news, recently, on the fleet operating expense front. But even the bad proffers optimism: it may be behind us. According to the results of the National Association of Fleet Administrator's (NAFA's) operating expense survey, running expenses increased by two cents a mile for the second consecutive year. The main culprit, according to the report, was surging fuel prices, accounting for nearly all of the two-cent per mile jump. In addition, fleet managers where blindsided by a second barrage in the form of interest rate leaps of unprecedented proportions — up nearly 100 percent over 1979, NAFA reported.

While it is nearly impossible to predict interest rate fluctuations, the consensus among economists is that we have seen the peak and projections are for generally flattening to lower rates for the rest of the year.

Once again fuel price rise the main culprit.

Meanwhile, the picture on the energy scene is also brightening. The outcome of the most recent meeting of the Organization of Oil Exporting Countires (OPEC) bodes extremely well for fuel prices throughout the remainder of 1981. While some OPEC members have announced a ten percent cut in production, the Saudis, who have the lowest price and highest output of oil, have called for a price freeze. Optimistic predictions for the stability of oil prices for a year and a half have been advanced.

In the NAFA report, a total of 90 fleets, representing more than 61,000 passenger cars, participated. Reporting was done according to NAFA's Recommended Classification of Automobile Expenses. Under this standard, fleet costs are divided into three categories: *Operating Expenses* (expressed in cents per car per mile), which included fuel, oil, tires, maintenance and repair; *Standing Expenses* (expressed in dollars per car per month), which included investment costs, depreciation, administration, and insurance; and *Incidental Expenses* (expressed in dollars per car per month), which included license and taxes, accident repairs, washing, parking and tolls, and miscellaneous. The survey was broken down into five car size groups.

Subcompact cars were defined as having a wheelbase of less than 100 inches, and a curb weight of less than 2,500 pounds. This was a new addition to the groups of previous years, added to accommodate the trend toward smaller cars. According to NAFA, not enough data was submitted for 1980 to tabulate significant results; however, it is anticipated that future years will see a dramatic shift to this size of vehicle.

Small cars were defined as those with a wheelbase between 100 and 106 inches and a curb weight between 2,500 and 3,000 pounds. The survey said that operating expenses for small cars in 1980 were just over nine cents a mile, nearly two cents a mile higher than 1979. The entire increase was attributed to the price of fuel. In 1979, fuel was slightly less than five cents a mile; while in 1980, it was nearly seven cents a mile. Expenses for oil remained constant while tire expenses rose slightly and repair and maintenance declined four-tenths of a cent per mile.

Nearly 82 percent of the small cars had six cylinder engines, the remaining were four cylinder. Air conditioning, automatic transmissions, power steering and power brakes were on nearly all vehicles in this category, according to the survey.

The small cars were driven an average of 1,630 miles per month, NAFA said. Using an average 1980 gasoline price of $1.21, the small cars averaged 17.4 miles per gallon.

The small car segment did not supply sufficient data for a meaningful analysis of Standing and Incidental Expenses, according to NAFA.

Interest rate rise also felt in fleet costs.

Mid-size cars were defined as having a wheelbase between 106 and 114 inches and a curb weight between 3,001 and 3,500 pounds. Operating expenses for the mid-size cars were nine and a quarter cents a mile compared to slightly less than seven and a half cents a mile in 1979, the survey showed.

NAFA said that six cylinder engines powered 99 percent of the mid-size cars, the remaining percent being eight cylinders. Air conditioning, automatic transmissions, power steering and power brakes were virtually standard. The average mid-size unit was driven 1,929 miles a month. Using a year-long average of $1.21 per gal-

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Summary of 1980 NAFA Operating Expense Report

	Small Cars	Mid-Size Cars	Large Cars	Composite Fleet
Average Miles per Month	1,630	1,929	1,773	1,897
OPERATING EXPENSES (Expressed in pennies per car per mile)				
Fuel	.0695	.0725	.0859	.0715
Oil	.0010	.0011	.0012	.0012
Tires & Tire Repair	.0074	.0066	.0065	.0066
Repair & Maintenance	.0144	.0120	.0175	.0132
Total Operating Expenses	.0902	.0922	.1111	.0925
INCIDENTAL EXPENSES (Expressed in dollars per car per month)				
License & Taxes	N.A.	$ 6.62	N.A.	$ 9.07
Accident Repairs – Less Recoveries	"	12.40	"	8.90
Washing	"	5.37	"	3.24
Parking & Tolls	"	11.58	"	11.50
Miscellaneous	"	1.40	"	1.23
Total Incidental Expenses	"	37.37	"	33.94
STANDING EXPENSES (Expressed in dollars per car per month)				
Interest or Service Charge	N.A.	56.03	N.A.	51.46
Depreciation Reserve	"	139.03	"	120.95
Depreciation Adjustment	"	-11.12	"	-16.91
Selling Expenses	"	—	"	—
Insurance	"	23.28	"	19.16
Total Standing Expenses	"	207.22	"	174.66
CREDITS (Dollar return per car per month)				
Personal Use Chargeback	N.A.	25.71	N.A.	23.64
Extra Equipment Credit	"	—	"	1.89
Total Credits	"	25.71	"	25.53
NET EXPENSES (Incidental expenses plus standing expenses less personal use credit expressed in dollars per car per month)		$218.88		$183.07

lon, the survey said that the mid-size cars averaged 16.7 miles per gallon in 1980.

Incidental expenses for the mid-size group were $37.37 per car per month, the report said — slightly less than two cents per mile.

Standing expenses amounted to $207.22 a month or about 10 and a half cents a mile. According to NAFA, the major contributor to standing expense increase was in the area of interest or service charges, up nearly 100 percent over the previous year.

Total expenses for the cars in this group amounted to 20 and a half cents a mile, or $395.44 per month, based on 1,929 miles per month, the report stated.

Large cars, or those having wheelbases greater than 114 inches and curb weights of more than 3,500 pounds, also had a two cents a mile increase. According to NAFA, operating expenses were slightly more than 11 cents a mile in 1980 compared to nine in 1979. Every car reporting in this segment was equipped with a V-8 engine, air conditioning, automatic transmission, power steering and power brakes.

The survey reported that the large cars were driven an average of 1,733 miles a month, getting an average of 14 miles per gallon. There was not sufficient survey response for NAFA to develop data on incidental and standing expenses.

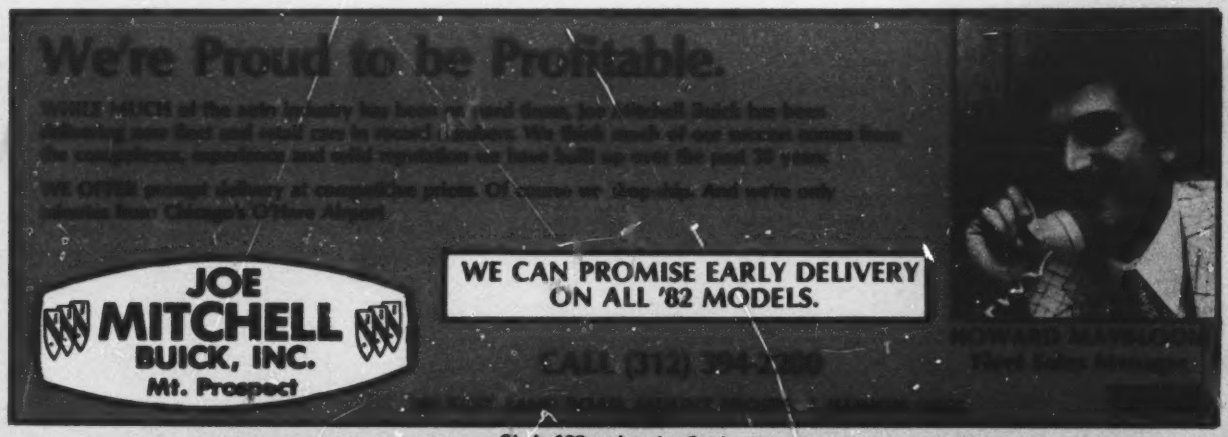
Composite fleets were those whose expenses were not broken down by the preceding categories. According to the NAFA survey, the composite fleet had operating expenses of nine and a quarter cents a mile in 1980. In 1979, the figure was slightly less than seven and a half cents a mile; nearly two cents increase from year to year. Nearly 59 percent of the composite fleet was mid-size; 30 percent, small; nine percent, large; and two percent were sub-compact. Of the sub-compacts, 83 percent had four cylinder engines, while 17 percent had six. The figures for the small cars were 38 percent and 62 percent respectively, the survey said.

The best news may be that the worst is behind us.

Nearly 90 percent of the reporting mid-size group had six cylinders, eight percent eight cylinders, and two percent four cylinders; while the large cars were 87 percent V-8's and 13 percent six cylinder engines.

Incidental expenses for the composite group amounted to $33.94 a month or about three-quarters of a cent per mile, NAFA said. Standing expenses of $174.66 a months were approximately nine cents per mile. Total expenses for the cars in the composite fleet were about 19 cents a mile or $358.54 per month.

A small group of Canadian fleets responded to the survey. These vehicles were operated 1,926 miles a month at a cost of nearly 10 cents a mile — seven cents for fuel; three-quarters of a cent a mile for tires; and two cents a mile for maintenance and repairs. In 1979 the Canadian fleets operating expenses were slightly less than eight cents a mile; the two-cent per mile increase holding true there too, NAFA said. Based on a U.S. gallon, fleet cars in Canada averaged about 16 miles per gallon on 1980, the report concluded.



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